State of Michigan
Department of Labor & Economic Growth

UNEMPLOYMENT INSURANCE AGENCY

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Fact Sheet

Solvency Tax

What is Unemployment Insurance Solvency Tax?

If the Unemployment Insurance Agency (UIA) has to borrow money from the federal government to pay unemployment benefits, a solvency tax is triggered by a provision of the Michigan Employment Security Act to pay the interest on the federal loans.

Why is there a Solvency Tax at this time?

The law requires the UIA to impose the solvency tax if the following condition applies:

- The Michigan Employment Security Act requires a solvency tax to be imposed if, on the preceding June 30, the balance in the Trust Fund is less than the total amount of un-repaid federal loans. On June 30, 2008, the Trust Fund had $177 million in unpaid federal loans.

Who pays the Solvency Tax?

- Only a contributing employer, that had a negative balance in their experience account as of June 30th of the preceding calendar year. A “Negative Balance Employer” is one that paid less in state unemployment taxes than their former employees received in unemployment benefits.
- The negative balance employer must also have had to pay unemployment taxes for five consecutive years
- The **solvency tax will not apply to most** (at least 85%) Michigan employers; rather it applies only to those contributing employers with negative balances (about 15% of contributing employers).

When will the Solvency Tax become effective?

- The solvency tax will become effective January 1, 2009.

How is the Solvency Tax calculated?

- The solvency tax is 1/4 of the account building component (ABC) of the employer’s contribution rate as determined under Section 19(a)(4) of the Michigan Employment Security Act.
- The maximum solvency tax rate is .75% (.0075**)**, based on a 3% maximum ABC (1/4 of 3% = .75%)**.**
- The maximum tax increase per year would be $67.50 per employee, based on the annual taxable wage base per employee of $9,000.
- The solvency tax is in addition to an employer’s calculated tax rate and will be displayed as a separate line item on Form UIA 1771, **Tax Rate Determination For Calendar Year 2009** (if applicable).

How can an employer avoid the Solvency Tax?

- By making a voluntary payment equal to the employer’s negative reserve balance, as of June 30th of the preceding calendar year, the employer would no longer have a negative reserve balance and be subject to the Solvency Tax.

If you have questions about the solvency tax, please contact the Employer Customer Relations Hotline @ 1-800-638-3994 or email TaxSupport@michigan.gov.

Michigan Department of Labor & Economic Growth
Unemployment Insurance Agency
Authority: UIA Director; Quantity: 1,000
Cost: $14 (1.4¢/copy). Paid for with federal funds.

Fact Sheet #121
October 2008

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